

The difference between these factors represents the overhead factors applied to the investments used to develop costs for EIS.

With respect to the ongoing maintenance and operating costs derived from book costs, the relationship of these costs to investment in the EIS study was .1050. As shown above, the incremental (directly assigned) factor for land is 0 and for buildings is .0032. The difference between the two shows the loadings on investment. Examining the differences between fully assigned and directly assigned factors, it is readily evident that at most, loadings for EIS would be no more than 10 percent of investment.¹⁹

For its special access services, a loadings factor is developed from a ratio of recurring revenues to incremental costs. For BellSouth's Lightgate service filing this methodology resulted in a loadings factor of 2.20. In other words, maximum permissible loadings for BellSouth's Lightgate service were 120 percent of direct costs.²⁰ In Exhibit 1, BellSouth has recalculated the costs for floor

¹⁹ In fact, for all other investments, the loading factors are considerably less than ten percent and the administrative loading factor is only 7 percent.

²⁰ The factor is the number that direct costs are to be multiplied by to obtain maximum reasonable revenues which would recover direct costs plus maximum reasonable allocation of overheads. In order to isolate the loadings portion only, the value 1 is subtracted from the factor. This result is multiplied by 100 to express to loadings portion as a percent.

BELLSOUTH TELECOMMUNICATIONS, INC.

1 RECURRING UNIT COST DEVELOPMENT -
2 RATE ELEMENT SPECIFIC COSTS

Appendix A
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Service Name: Expanded Interconnection Service
Rate Element: Interconnection Floor Space
- Per 100 Square Foot Module

INVESTMENT		
Design and Construction of Enclosure	\$36,191.74	
All other investments	\$17,462.78	
Total (LN12+LN13)	\$53,654.52	
INVESTMENT RELATED UNIT CAPITAL COSTS (applies to LN13 only)		
Depreciation Expense	\$1,160.38	5.54%
Cost of Money	\$1,636.99	9.37%
Income Tax Expense	\$727.48	4.17%
Total (LN18+LN19+LN20)	\$3,524.84	20.18%
INVESTMENT RELATED UNIT OPERATING COSTS (applies to LN14)		
Maintenance Expense	\$354.06	0.66%
Administrative Expense	\$1,979.85	3.69%
Ad Valorem and Other Taxes	\$643.85	1.20%
Total (LN24+LN25+LN26)	\$2,977.77	5.55%
TOTAL INVESTMENT RELATED UNIT COSTS (LN21 + LN27)	\$6,502.61	12.12%
NON-INVESTMENT RELATED UNIT COSTS	\$0.00	
TOTAL UNIT ANNUAL COSTS (LN29+LN31)	\$6,502.61	12.12%
TOTAL UNIT MONTHLY COSTS (LN33/12)	\$541.88	1.01%
LightGate Filing Recurring Revenue to Incremental Cost Ratio	2.20	
Total Unit Monthly Rate using LightGate Overhead Loading (LN35*LN37)	\$1,192.15	
Monthly Rate Filed for EIS (Cost rounded to nearest dollar)	\$931.00	
Difference (LN39-LN40)	\$261.15	
% Difference (LN41/LN40)	28.05%	
Overhead included in EIS Filed Rate (LN40-LN35)	\$389.12	
EIS Filing Recurring Revenue to Incremental Cost Ratio (LN40/LN35)	1.72	

BELLSOUTH TELECOMMUNICATIONS, INC.

Appendix A
WORKPAPER 2A1 RECURRING UNIT COST DEVELOPMENT -
2 RATE ELEMENT SPECIFIC COSTS3
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Service Name: Expanded Interconnection Service

Rate Element: Cross Connect - Per DS1

14 TOTAL UNIT INVESTMENT	\$292.32	
17 INVESTMENT RELATED UNIT CAPITAL COSTS		
18 Depreciation Expense	\$32.18	11.01%
19 Cost of Money	\$22.71	7.77%
20 Income Tax Expense	\$10.07	3.45%
21 Total (LN18+LN19+LN20)	\$64.96	22.22%
23 INVESTMENT RELATED UNIT OPERATING COSTS		
24 Maintenance Expense	\$2.34	0.80%
25 Administrative Expense	\$10.79	3.69%
26 Ad Valorem and Other Taxes	\$3.51	1.20%
27 Total (LN24+LN25+LN26)	\$16.63	5.69%
29 TOTAL INVESTMENT RELATED UNIT COSTS (LN21+LN27) ..	\$81.59	27.91%
31 NON-INVESTMENT RELATED UNIT COSTS	\$0.00	
33 TOTAL UNIT ANNUAL COSTS (LN29+LN31)	\$81.59	27.91%
35 TOTAL UNIT MONTHLY COSTS (LN33/12)	\$6.80	2.33%
37 LightGate Filing Recurring Revenue to Incremental Cost Ratio	2.20	
39 Total Unit Monthly Rate using LightGate Overhead Loading (LN35*LN37)	\$14.96	
40 Monthly Rate Filed for EIS (Cost rounded to nearest dollar)	\$9.00	
41 Difference (LN39-LN40)	\$5.96	
42 % Difference (LN41/LN40)	66.20%	
44 Overhead included in EIS Filed Rate (LN40-LN35)	\$2.20	
45 EIS Filing Recurring Revenue to Incremental Cost Ratio (LN40/LN35)	1.32	

BELLSOUTH TELECOMMUNICATIONS, INC.

Appendix A
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1 RECURRING UNIT COST DEVELOPMENT -
2 RATE ELEMENT SPECIFIC COSTS

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Service Name: Expanded Interconnection Service
Rate Element: Cross Connect - Per DS3

14 TOTAL UNIT INVESTMENT	\$2,524.51	
17 INVESTMENT RELATED UNIT CAPITAL COSTS		
18 Depreciation Expense	\$277.89	11.01%
19 Cost of Money	\$196.11	7.77%
20 Income Tax Expense	\$86.98	3.45%
21 Total (LN18+LN19+LN20)	\$560.98	22.22%
23 INVESTMENT RELATED UNIT OPERATING COSTS		
24 Maintenance Expense	\$20.18	0.80%
25 Administrative Expense	\$93.15	3.69%
26 Ad Valorem and Other Taxes	\$30.29	1.20%
27 Total (LN24+LN25+LN26)	\$143.63	5.69%
29 TOTAL INVESTMENT RELATED UNIT COSTS (LN21 + LN27)	\$704.61	27.91%
31 NON-INVESTMENT RELATED UNIT COSTS	\$0.00	
33 TOTAL UNIT ANNUAL COSTS (LN29 + LN31)	\$704.61	27.91%
35 TOTAL UNIT MONTHLY COSTS (LN33/12)	\$58.72	2.33%
37 LightGate Filing Recurring Revenue to Incremental Cost Ratio	2.20	
39 Total Unit Monthly Rate using LightGate Overhead Loading (LN35*LN37)	\$129.18	
40 Monthly Rate Filed for EIS (Cost rounded to nearest dollar)	\$76.00	
41 Difference (LN39 - LN40)	\$53.18	
42 % Difference (LN41/LN40)	69.97%	
44 Overhead included in EIS Filed Rate (LN40 - LN35)	\$17.28	
45 EIS Filing Recurring Revenue to Incremental Cost Ratio (LN40/LN35)	1.29	

BELLSOUTH TELECOMMUNICATIONS, INC.

1	RECURRING UNIT COST DEVELOPMENT -		
2	RATE ELEMENT SPECIFIC COSTS		
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14	TOTAL UNIT INVESTMENT	\$6,339.56	
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17	INVESTMENT RELATED UNIT CAPITAL COSTS		
18	Depreciation Expense	\$513.83	8.11%
19	Cost of Money	\$530.99	8.38%
20	Income Tax Expense	\$235.44	3.71%
21	Total (LN18+LN19+LN20)	\$1,280.27	20.19%
22			
23	INVESTMENT RELATED UNIT OPERATING COSTS		
24	Maintenance Expense	\$160.46	2.53%
25	Administrative Expense	\$233.93	3.69%
26	Ad Valorem and Other Taxes	\$76.07	1.20%
27	Total (LN24+LN25+LN26)	\$470.46	7.42%
28			
29	TOTAL INVESTMENT RELATED UNIT COSTS (LN21 + LN27) ..	\$1,750.73	27.62%
30			
31	NON-INVESTMENT RELATED UNIT COSTS	\$0.00	
32			
33	TOTAL UNIT ANNUAL COSTS (LN29+LN31)	\$1,750.73	27.62%
34			
35	TOTAL UNIT MONTHLY COSTS (LN33/12)	\$145.89	2.30%
36			
37	LightGate Filing Recurring Revenue to Incremental Cost Ratio	2.20	
38			
39	Total Unit Monthly Rate using LightGate Overhead Loading (LN35*LN37)	\$320.97	
40	Monthly Rate Filed for EIS (Cost rounded to nearest dollar)	\$194.00	
41	Difference (LN39-LN40)	\$126.97	
42	% Difference (LN41/LN40)	65.45%	
43			
44	Overhead included in EIS Filed Rate (LN40-LN35)	\$49.11	
45	EIS Filing Recurring Revenue to Incremental Cost Ratio (LN40/LN35)	1.33	
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Appendix A
WORKPAPER 2C

Service Name: Expanded Interconnection Service

Rate Element: Optional Back-Up AC Power
- Per Module

BELLSOUTH TELECOMMUNICATIONS, INC.

1 RECURRING UNIT COST DEVELOPMENT -
2 RATE ELEMENT SPECIFIC COSTS

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Service Name: Expanded Interconnection Service
Rate Element: Optional DC Power
- Per Module

TOTAL UNIT INVESTMENT	\$6,342.61	
INVESTMENT RELATED UNIT CAPITAL COSTS		
Depreciation Expense	\$578.62	9.12%
Cost of Money	\$495.51	7.91%
Income Tax Expense	\$219.45	3.46%
Total (LN18+LN19+LN20)	\$1,293.58	20.40%
INVESTMENT RELATED UNIT OPERATING COSTS		
Maintenance Expense	\$186.41	2.94%
Administrative Expense	\$234.04	3.69%
Ad Valorem and Other Taxes	\$78.11	1.20%
Total (LN24+LN25+LN26)	\$498.56	7.83%
TOTAL INVESTMENT RELATED UNIT COSTS (LN21+LN27)	\$1,790.15	28.22%
NON-INVESTMENT RELATED UNIT COSTS	\$0.00	
TOTAL UNIT ANNUAL COSTS (LN29+LN31)	\$1,790.15	28.22%
TOTAL UNIT MONTHLY COSTS (LN33/12)	\$149.18	2.35%
LightGate Filing Recurring Revenue to Incremental Cost Ratio	2.20	
Total Unit Monthly Rate using LightGate Overhead Loading (LN35*LN37)	\$328.19	
Monthly Rate Filed for EIS (Cost rounded to nearest dollar)	\$199.00	
Difference (LN38-LN40)	\$129.19	
% Difference (LN41/LN40)	64.92%	
Overhead included in EIS Filed Rate (LN40-LN35)	\$49.82	
EIS Filing Recurring Revenue to Incremental Cost Ratio (LN40/LN35)	1.33	

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Washington, D.C. 20554

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OFFICE OF THE SECRETARY

FILE COPY

In the Matter of

Local Exchange Carriers' Rates,
Terms, and Conditions for
Expanded Interconnection for
Special Access

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CC Docket No. 93-162

DIRECT CASE

BELLSOUTH TELECOMMUNICATIONS, INC.
M. Robert Sutherland
Richard M. Sbaratta
Helen A. Shockey

Its Attorneys

675 West Peachtree Street
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DATE: August 20, 1993

Overhead Loading (Para. 22(c)(1))

BellSouth calculates a price-ceiling ratio for Special Access services and uses that price-ceiling ratio to insure that a Special Access new service rate recovers no more than a just and reasonable amount of overhead costs. A list of price-ceiling ratios for DS1 and DS3 Special Access services is at Exhibit 2 Appendix E.

BellSouth did not use the price-ceiling ratio to set the rates in EIS and VEIS because of the unusual aspects of the services and that they are not Price Caps services. Rather, BellSouth used a reasonable method to determine overheads for the EIS and VEIS offerings. Overheads were defined as the fully assigned maintenance and administrative expenses associated with the offerings. The methodology is consistent across all EIS and VEIS rate elements.

A complete list of costs, rates, overhead amounts, and overhead ratios for all EIS and VEIS rate elements and "functions" is at Appendix C. For each account code within a rate element, fully assigned maintenance and administrative expenses were determined and included in the fully assigned costs (App. C, Col. b). These fully assigned maintenance and administrative expenses are the overheads. The rate (App. C, Col. c) was determined by rounding the fully assigned cost. The amount of overhead resulting from rounding is indicated in Column f of Appendix C. The total overhead amount is indicated in Appendix C, Column e.

With the exception of ongoing maintenance and operating expenses associated with the central office floor space and associated land for the floor space for the enclosed collocation module, EIS Interconnection Floor Space - Per 100 Square Foot Module, and the VEIS Floor Space - Per Square Foot, BellSouth used incremental fully assigned maintenance and administrative expense factors to calculate maintenance and administrative expenses in the fully assigned cost calculation. For the ongoing maintenance and operating expense of the floor space, BellSouth developed expenses, including direct salaries and salary loadings, per assignable square foot based on book costs for the 12 month period from December 1, 1991, through November 30, 1992. The book costs were used to determine these operating expenses because an appropriate fully assigned factor was not available. Expanded Interconnection is the first service where land and buildings are service offerings, not just loadings. Directly assigned factors were used in all cases to calculate the direct cost (App. C, Col. d).

The difference between the fully assigned and directly assigned factors are as follows:

<u>PART 32 ACCOUNT</u>	<u>MAINTENANCE</u>	<u>ADMINISTRATION</u>
2232	.0137	.0683
2212	.0289	.0683
2211	.0230	.0683
2111	.0000	.0683
2121	.0005	.0683

This difference represents the overhead factors applied to the investments used to develop costs.

With respect to the ongoing maintenance and operating costs derived from the books, the relationship of these costs to investment is as follows.

EIS Interconnection Floor Space

	Fully Assigned	Operating Cost Directly Assigned
<u>Investment</u>	<u>% of Investment</u>	<u>% of Investment</u>
\$7546	.1050	.0032

EIS Interconnection Floor Space "Function"

	Fully Assigned	Operating Cost Directly Assigned
<u>Investment</u>	<u>% of Investment</u>	<u>% of Investment</u>
\$7546	.1050	.0032

VEIS Floor Space Per Square Foot

		Operating Cost
		Directly
		Assigned
<u>Investment</u>	<u>% of Investment</u>	<u>% of Investment</u>
\$75.46	.1050	.0032

The difference between .1050 and .0032 is .1018 and represents the overhead factor applied to the investment for the floor space occupied by the interconnector.

The overhead ratios for EIS on a per rate element range from 1.29 to 1.72 and for VEIS range from 1.29 to 1.81. On a per "function" the overhead ratios range from 1.29 to 2.02 for EIS and 1.29 to 1.81 for VEIS. If the floor space rate elements, for which operating expenses were calculated from the books, are excluded the range for EIS per rate element is 1.29 to 1.33 and per "function" is 1.29 to 1.35. The range for VEIS per rate element and "function" is 1.29 to 1.35.

By assuming demand for EIS and VEIS and the overhead ratio is calculated on a service basis as BellSouth's price-ceiling ratios are calculated, the EIS overhead ratio is 1.41 and the VEIS overhead ratio is 1.34. These calculation are included in Appendix D. The price-ceiling ratios for BellSouth DS1 and DS3 services range from 1.14 for

SMARTRing™ 49/72 Month to 2.20 for SMARTRing™ Month-to-Month. The price-ceiling ratio for DS1 is 2.69, DS3 is 1.91, and for DS1 and DS3 combined is 2.41. These price-ceiling ratios are shown in Appendix E.¹

The difference between DS1 and DS3 ratios are a product of several factors. As a preliminary matter, however, there is no a priori reason that they should be the same. To the contrary, under price cap regulation it is reasonable to expect these types of ratios to differ among services. Indeed, a primary purpose of price cap regulation is to provide incentives for local exchange carriers to become more efficient. Efficiency, however, is not merely limited to cost control but also extends to pricing efficiency. Within the price cap constraints, one of BellSouth's objectives is to efficiently price its services to reflect the marketplace. As such, it is reasonable to expect price/cost variations among services.

The variation between the DS1 and DS3 ratios reflects several considerations. First, it reflects to a certain extent price/cost relationship for these services that existed prior to price cap regulation. Since price cap regulation, BellSouth has endeavored to reflect in its pricing current cost trends. Another factor is market

¹ BellSouth filed term rates for DS1 services earlier in 1993. At this time, only about nine circuits have converted to a term plan. BellSouth plans to revise its term rates within the next few weeks and will submit price/cost ratios with the filing.

conditions. In order to take into account market considerations, BellSouth, in pricing its services, must reflect customer needs and expectations. Finally, BellSouth integrates and balances all of these factors to assure that its services offerings are priced so as to maximize their contribution to meeting revenue targets.

Comparing the ratios contained in Appendices C, D and E shows that whether Expanded Interconnection is analyzed by rate element, "function", or service the overhead ratios are well within the range of overhead ratios for other DS1 and DS3 services. Indeed, for the most part overhead ratios for DS1 and DS3 services exceed those associated with expanded interconnection.

Expanded Interconnection is the only Special Access service, in which BellSouth provides land and buildings as an offering. Therefore, in EIS and VEIS land and buildings are not General Support Facilities. The land and buildings investments included in BellSouth's EIS and VEIS offerings are associated with expanded interconnection and no other service offering. In particular, the interconnector enclosure would not be constructed if EIS was not offered and the 100 square feet of floor space enclosed cannot be used by BellSouth to provide or support another service while occupied by an interconnector. Therefore, BellSouth should recover the costs (capital and operating) associated

with the land and buildings used to provide Expanded Interconnection from the cost-causer, the interconnectors.²

BellSouth has demonstrated here that the loadings added to direct costs represent a reasonable contribution to joint and common costs. There is no basis to excuse interconnectors from contributing to the recovery of these costs.

The rates from special access services also make a contribution to joint and common costs. The Commission's price cap plan has established a sharing mechanism which limits BellSouth's earnings. This mechanism assures that BellSouth does not over-recover its costs. There is no adjustment, however, that is necessary to existing special access rates or to the expanded interconnection cost study to prevent double recovery of costs. The Commission's concern with double recovery is misplaced. Such a concern is relevant only in a revenue requirements/rate of return regulatory environment. Price cap regulation has replaced that rate of return regulation. It would be nothing less than arbitrary to attempt to overlay a revenue requirement analysis over special access rates and ratemaking. The only relevant issue here is the cost development for expanded

² The same statement can be made concerning the application fee and service order processing charges for EIS and VEIS. If the services were not offered, BellSouth would not incur the costs associated with these functions. Therefore, the interconnectors should pay for these costs.

interconnection services. BellSouth has shown its cost development for these services is just and reasonable.

The rate for each EIS and VEIS element was established to equal direct cost plus some reasonable amount of overheads. BellSouth included only overheads associated with maintenance and administration and used investment as an allocator. Only the investment associated with EIS and VEIS were used to determine these overheads.

For the floor space, the maintenance was calculated from the books so only maintenance expenses associated with the specific central office buildings and land are included where interconnectors have expressed an interest to interconnect. These costs are on a per assignable square foot, so the interconnector is only charged for the maintenance of the square feet the interconnector uses. For the other rate elements, the maintenance was calculated by applying a factor to the investment associated with providing the service.

The administrative expense factors assign expenses categorized as administrative overheads across telephone products and services on the basis of investments. EIS and VEIS are services. Therefore, the administrative expense associated with them was calculated by applying the administrative factor to the investments. Again, only the investment used for interconnection was included.

EXPANDED INTERCONNECTION SERVICE

Investment Related Rate Element (a)	Fully Assigned Cost (b)	Rate (c)	Directly Assigned Cost (d)	Total Overhead Amount (e=c-d)	Result of Rounding Overhead Amount (f=c-b)	Overhead Ratio (g=c/d)
Space Const. Charge						
- per 100 Sq. Ft. Module	\$51,652.87	\$51,660.00	\$51,652.87	\$7.13	\$7.13	1.00
- Const. Provisioning	\$148.29	\$149.00	\$148.29	\$0.71	\$0.71	1.00
- Inter. Specific Const.	\$229.00	\$229.00	\$229.00	\$0.00	\$0.00	1.00
- Security Installation	\$199.06	\$200.00	\$199.06	\$0.94	\$0.94	1.00
- Partition Total	\$576.35	\$578.00	\$576.35	\$1.65	\$1.65	1.00
Interconnection Floor						
Space	\$930.72	\$931.00	\$541.88	\$389.12	\$0.28	1.72
- DC Power Generation	\$198.76	\$198.90	\$149.16	\$49.74	\$0.14	1.33
- Floor Space	\$624.38	\$624.50	\$309.43	\$315.07	\$0.12	2.02
- Entrance Facility Space	\$107.50	\$107.60	\$83.12	\$24.48	\$0.10	1.29
- Partition Total	\$930.64	\$931.00	\$541.71	\$389.29	\$0.36	1.72
Cross-Connect per DS1	\$8.79	\$9.00	\$6.80	\$2.20	\$0.21	1.32
- DS1 Cross-Connection						
Cable & Cable Support	\$6.77	\$6.90	\$5.23	\$1.67	\$0.13	1.32
- Termination Equipment	\$0.48	\$0.50	\$0.37	\$0.13	\$0.02	1.35
- DS1 Cross-Connection						
Equipment	\$1.54	\$1.60	\$1.19	\$0.41	\$0.06	1.34
- Partition Total	\$8.79	\$9.00	\$6.79	\$2.21	\$0.21	1.33
Cross-Connect per DS3	\$75.83	\$76.00	\$58.72	\$17.28	\$0.07	1.29
- DS3 Cross-Connection						
Cable & Cable Support	\$60.37	\$60.40	\$46.68	\$13.72	\$0.03	1.29
- Termination Equipment	\$3.10	\$3.10	\$2.39	\$0.71	\$0.00	1.30
- DS3 Cross-Connection						
Equipment	\$12.46	\$12.50	\$9.63	\$2.87	\$0.04	1.30
- Partition Total	\$75.93	\$76.00	\$58.70	\$17.30	\$0.07	1.29
Back-up AC Power						
- per Module	\$183.41	\$184.00	\$145.89	\$48.11	\$0.59	1.33
Additional DC Power						
- per Module	\$198.77	\$199.00	\$149.18	\$49.82	\$0.23	1.33

Note: Unpartitioned Rate Elements are in bold.
Partitioned Functions are italicized.

VIRTUAL EXPANDED INTERCONNECTION SERVICE

Investment Related Rate Element (a)	Fully Assigned Cost (b)	Rate (c)	Directly Assigned Cost (d)	Total Overhead Amount (e=c-d)	Result of Rounding Overhead Amount (f=c-b)	Overhead Ratio (g=c/d)
Cable Support Structure	\$14.76	\$15.00	\$11.41	\$3.59	\$0.24	1.31
Cross-Connect per DS1	\$8.79	\$9.00	\$6.80	\$2.20	\$0.21	1.32
- <i>DS1 Cross-Connection Cable & Cable Support</i>	\$6.77	\$6.90	\$5.23	\$1.67	\$0.13	1.32
- <i>Termination Equipment</i>	\$0.48	\$0.50	\$0.37	\$0.13	\$0.02	1.35
- <i>DS1 Cross-Connection Equipment</i>	\$1.54	\$1.60	\$1.19	\$0.41	\$0.06	1.34
- <i>Partition Total</i>	\$8.79	\$9.00	\$6.79	\$2.21	\$0.21	1.33
Cross-Connect per DS3	\$75.93	\$76.00	\$58.72	\$17.28	\$0.07	1.29
- <i>DS3 Cross-Connection Cable & Cable Support</i>	\$60.37	\$60.40	\$46.68	\$13.72	\$0.03	1.29
- <i>Termination Equipment</i>	\$3.10	\$3.10	\$2.39	\$0.71	\$0.00	1.30
- <i>DS3 Cross-Connection Equipment</i>	\$12.46	\$12.50	\$9.63	\$2.87	\$0.04	1.30
- <i>Partition Total</i>	\$75.93	\$76.00	\$58.70	\$17.30	\$0.07	1.29
Floor Space - per Sq. Ft.	\$4.19	\$5.00	\$2.76	\$2.24	\$0.81	1.81
Floor Space - per Amp	\$3.98	\$4.00	\$2.98	\$1.02	\$0.02	1.34

Note: Unpartitioned Rate Elements are in bold.
Partitioned Functions are italicized.

**PRICE-CEILING (OVERHEAD) RATIO CALCULATION
BELLSOUTH DS1 AND DS3 SERVICES**

Service (a)	Total Incremental Cost (b)	Total Revenue (c)	Overhead Ratio (d=c/b)
DS1	\$47,546,584	\$128,089,035	2.69
DS3	\$26,898,998	\$51,300,457	1.91
LIGHTGATE	\$26,044,425	\$50,255,722	1.93
LIGHTGATE MTH-TO-MTH	\$25,071,771	\$48,712,952	1.94
LIGHTGATE 24/48 MTH	\$959,674	\$1,520,430	1.58
LIGHTGATE 49/72 MTH	\$12,980	\$22,340	1.72
LIGHTGATE 73/96 MTH	\$0	\$0	-
SMARTRING	\$854,573	\$1,044,735	1.22
SMARTRING MTH-TO-MTH	\$11,474	\$25,240	2.20
SMARTRING 24/48 MTH	\$134,172	\$196,290	1.46
SMARTRING 49/72 MTH	\$257,803	\$293,590	1.14
SMARTRING 73/96 MTH	\$451,124	\$529,615	1.17
DS1 AND DS3	\$74,445,582	\$179,389,492	2.41

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)

Local Exchange Carriers' Rates,)
Terms, and Conditions for)
Expanded Interconnection for)
Special Access)

CC Docket No. 93-162

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REPLY

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BellSouth Telecommunications Inc. ("BellSouth) hereby
submits its Reply to the Oppositions to BellSouth's Direct
Case.

Parties filing oppositions in this investigation have
followed quite a predictable pattern. The greatest
specificity that can be found in the oppositions consists of
recitations by the parties of various provisions or rates
for expanded interconnection. The recitations are then
followed by the observation that particular provisions and
rates differ among LECs. Many times, they conclude by
urging the Commission to adopt one of the tariff provisions
or rates.

Such oppositions are far from compelling. The broad
allegations which characterize so many of the oppositions
can hardly be viewed to undermine BellSouth's Direct Case.
In lieu of analysis, the parties state preferences.

A tariff investigation is not a popularity contest.
Its purpose is to determine whether a tariff's provisions
and rates are lawful under the Communications Act. The

expenses included in the Application Fee and Space Preparation charges. These capitalized costs are recovered in the nonrecurring space construction charge. Under the partitioned functions set forth in the Designation Order, they are identified under the construction provisioning function and not the interconnector-specific construction function where the other space construction capital costs appear.

The service order related expenses are reflected in the Application Fee and Space Preparation charges. In Exhibit 2 of its Direct Case, BellSouth summarized the nonrecurring work activities that underlie the service order related nonrecurring charges.⁶ As pointed out in the Direct Case, all of the work functions, work times and associated labor rates were provided as supporting information with the Expanded Interconnection Service tariff filing.⁷ Accordingly, BellSouth has provided all of the information necessary to evaluate the reasonableness of its nonrecurring charges.

Issue: Overhead Loadings

Allegation: The LECs have failed to establish that the overhead loadings for collocation services do not exceed those used for competitive DS1 and DS3 services. (ALTS at 17-21)

Response: ALTS is simply incorrect that BellSouth has not provided sufficient information. In its Direct Case, BellSouth included information for its DS1 service and DS3 services (including term plans) that showed that the overhead loadings reflected in its DS1 and DS3 rates exceed the loading factors used to compute the expanded interconnection charges.⁸ As these data show, the overhead

⁶ BellSouth Direct Case, Exhibit 2 at 16-19.

⁷ See BellSouth Transmittal No. 92 (Feb. 16, 1993) Appendix A, Workpapers 3, 3A, 3B, 3C, 3D, 3E and 3F. For Virtual Expanded Interconnection Service the same information was included with Transmittal No. 119 (June 14, 1993) Appendix A, Workpapers 3, 3A, 3B and 3C.

⁸ See BellSouth Direct Case, Exhibit 2 at 29-36. At that time BellSouth did not include overhead loading associated with term plans for DS1 because BellSouth was about to revise the DS1 term rates. BellSouth indicated
(continued...)

ratios for BellSouth's competitive DS1 and DS3 services exceed the overhead loadings reflected in the expanded interconnection rates.

ALTS appears to reach its erroneous conclusion by assuming that different cost bases are used to calculate the overhead ratio for BellSouth's competitive services on the one hand and for expanded interconnection on the other. To the contrary, overhead loadings in both instances are measured by identifying the incremental cost (i.e., directly assigned cost) of the service. The amount the rate is above the incremental (directly assigned) cost reflects the overhead loading.

ALTS confuses the method used to establish the interconnection rates with the measure of overheads. For expanded interconnection, the rates were established by using fully assigned factors and applying those factors to the investments.

For BellSouth's special access services, ratemaking reflects numerous considerations including market conditions. Nevertheless, the actual overhead loadings reflected in the rates of these competitive services exceed those reflected in the fully assigned cost factors used for expanded interconnection.

Issue: Cost of money

Allegation: The factor used to reflect the cost of money is excessive. (MFS at 2-4; MCI at 9-10).

Response: BellSouth employs a forward-looking cost of money factor in developing its cost of service. This forward-looking cost of money represents BellSouth's estimate of an investor's expectation of the return he will receive on his investment. In order to insure that BellSouth can continue to attract investor generated capital, BellSouth must meet or exceed this return expectation.

The cost of money is just one component of an annual cost factor. Like other annual cost factor components, the

¹(...continued)
revised overhead ratios would be submitted with the tariff filing. The tariff filing was made on August 31, 1993 under Transmittal No. 140. BellSouth resubmits here all of its overhead ratios for its DS1 and DS3 services as Attachment 2.

**PRICE-CEILING (OVERHEAD) RATIO CALCULATION
BELLSOUTH DS1 AND DS3 SERVICES**

Service (a)	Total Incremental Cost (b)	Total Revenue (c)	Overhead Ratio (d=c/b)
Proposed DS1	\$48,115,267.96	\$126,407,307.00	2.63
Proposed DS1 MTH-TO-MTH	\$33,221,881	\$85,739,511	2.58
Proposed DS1 ACP Contract Plan A	\$11,444,376.82	\$31,507,596.00	2.75
Proposed DS1 ACP Contract Plan B	\$3,424,939.48	\$9,116,100.00	2.66
Proposed DS1 CSPP Contract Plan A	\$8,748.58	\$17,580.00	2.01
Proposed DS1 CSPP Contract Plan B	\$15,322.08	\$26,520.00	1.73
DS3	\$26,898,998	\$51,300,457	1.91
LIGHTGATE	\$26,044,425	\$50,255,722	1.93
LIGHTGATE MTH-TO-MTH	\$25,071,771	\$48,712,952	1.94
LIGHTGATE 24/48 MTH	\$959,674	\$1,520,430	1.58
LIGHTGATE 49/72 MTH	\$12,980	\$22,340	1.72
LIGHTGATE 73/96 MTH	\$0	\$0	-
SMARTRING	\$854,573	\$1,044,735	1.22
SMARTRING MTH-TO-MTH	\$11,474	\$25,240	2.20
SMARTRING 24/48 MTH	\$134,172	\$196,290	1.46
SMARTRING 49/72 MTH	\$257,803	\$293,590	1.14
SMARTRING 73/96 MTH	\$451,124	\$529,615	1.17
DS1 AND DS3	\$75,014,266	\$177,707,764	2.37